GREAT LAKES PAPER • ANNUAL REPORT 1971

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THE GREAT LAKES PAPER COMPANY, LIMITED

1971 ANNUAL REPORT FROM THE DIRECTORS

Directors listed on page 25

To the Shareholders

IN 1971 we set a record in total sales, shipped more newsprint than 1970 and made significant progress in our continuing program of modernization. Our earnings, however, were affected by the same economic problems that troubled the industry in 1971, namely ever-increasing operating costs and the stronger Canadian dollar. These developments and the various other elements that shaped our 1971 results, are set forth in detail in this report.

WE WERE SADDENED in 1971 by the death of C. J. Warwick Fox, president of our company from 1954 to September 1971. During his term as president, the company expanded from a rated capacity of about 156,000 tons a year of newsprint to the largest single pulp and paper complex in Eastern Canada with four paper machines and a total rated annual newsprint capacity of about 440,000 tons. Added to this is a 200,000 ton-a-year kraft pulp mill which opened in 1966. Our company and the industry will miss his counsel and leadership. Management changes occasioned by this loss in our executive ranks are discussed on page 6.

OUR BOARD OF DIRECTORS totalled 14 members at December 31, 1971 following the death of our former president. At our annual shareholders' meeting in April 1971, the retirement of four directors was announced and a new director, Keith Campbell, vice-president, administration, Canadian Pacific Limited, was elected. Retiring directors were Wilbur C. Cochrane, Hon. Ray Lawson, L. Stuart Mackersy and Carl P. Slane. We regret to report the death late in 1971 of Mr. Cochrane who had been closely associated with the company since his election as a director in 1942. He also served as vice-president from 1950 to 1955. The company suffered a further loss with the death in January 1972 of Robert A. Brown, Jr. who had been a director since 1969.

In August 1971 we marked the retirement of K. A. Miners as vice-president finance after a long and distinguished career with the company beginning in 1948.

A STUDY to determine the feasibility of adding a second kraft mill was undertaken in 1970. Results of the study were presented to the directors in December 1970 and the matter was deferred. The study is being kept up to date and will be reviewed by the directors from time to time.

THE DIAGRAM and photographs in this report show important advances in a number of areas, particularly in the extensive mechanization of our wood-handling and wood-processing systems. Because of the valuable contribution these improvements will make to the increased efficiency of our operations, we think it worthwhile to devote considerable space to them.

On behalf of the directors,

February 15, 1972 — CHARLES J. CARTER, *president*

ON INSIDE PAGES

Except for total sales, dollars in this report are Canadian unless otherwise identified. Amounts per share are based on total shares issued up to the end of the respective year.

A tree is cut and converted to eight-foot logs by this short-wood harvester described on page 12.

Scoreboard

	1971	1970	PERCENT UP OR DOWN IN 1971
newspaper paper, tons shipped	340,516	335,194	up 1.6
chemical pulp, tons shipped	166,073	184,613	down 10.0
total shipments to customers	506,589	519,807	down 2.5
'000 omitted			
total sales (U.S. dollars)	$81,355	$79,667	up 2.1
U.S. dollar exchange premium	648	2,445	down 73.5
sales, in Canadian dollars	82,003	82,112	down 0.1
operating profit	13,446	15,728	down 14.5
interest charges	2,306	2,537	down 9.1
depreciation and depletion	5,843	5,873	down 0.5
earnings before income taxes	5,747	8,820	down 34.8
income taxes	2,510	4,475	down 43.9
NET EARNINGS: total amount	3,237	4,345	down 25.5
net per share	0.90	1.21	down 25.5
dividends declared: total	2,342	3,603	down 35.0
amount per share	0.65	1.00	down 35.0
% of net per share	72	83	down 13.3
cash flow	$ 9,710	$ 9,963	down 2.5
working capital at year-end	12,411	20,606	down 39.8
fixed assets, at year-end	139,863	128,932	up 8.5
retained earnings, at year-end	27,491	26,596	up 3.4

Ten-year financial and tonnage summaries are shown on pages 22, 23 and 24

OUR COMPANY

The Great Lakes Paper Company, Limited was incorporated under the laws of Ontario in 1936. We manufacture newsprint paper, bleached kraft pulp and unbleached sulphite pulp. Our mill and head office are at Thunder Bay, Ontario. A map of our forest area is on the back cover.

Five Highlights of '71

1. Total sales of $81.4 million established a record in 1971 versus the previous record of $79.7 million in 1970.

2. Despite record total sales and improved newsprint shipments and prices, net earnings of 90 cents in 1971 were down from $1.21 a share in 1970.

3. The major factor behind lower earnings was the reduction in the U.S. dollar exchange premium.

4. Dividends declared in 1971 amounted to 65 cents a share compared with the previous $1.00 a share.

5. The appointments of Charles J. Carter as president and Cecil J. Jeffery and Murray D. Seeley as executive vice-presidents were announced following the death of C. J. Warwick Fox.

REMINDER: YOUR PROXY

Our annual and general meeting of the shareholders will be held in the Confederation Room of the Royal York Hotel in Toronto on Wednesday, April 19, 1972, at 11:30 a.m. Eastern Standard Time. Shareholders not attending are entitled and invited to be represented by using the instrument of proxy enclosed with the combined notice of meeting and information circular mailed to you on March 8. Your signed and dated instrument of proxy should reach the Toronto address given in the notice not later than April 12.


LAKES PAPER

Earnings, Tons Down; Sales Up

Net earnings of $3.2 million in 1971 were down 25.5 percent from $4.3 million in 1970, representing 90 cents a share versus $1.21 a share in 1970.

Earnings were substantially affected by continuing cost increases, particularly in labor, freight, fuel and electric power rates.

The reduction in our U.S. dollar exchange premium, as noted on page 6, was responsible for a decrease in our 1971 earnings of $908,000 or 25 cents a share compared with 1970.

Favorable factors in 1971 were an increase in newsprint shipments over 1970 and a record in total sales.

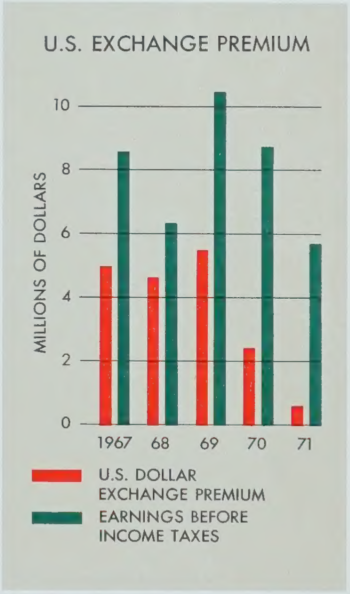
Dividends

Due to lower earnings and the need to maintain as strong a financial position as possible in the face of continuing increases in operating costs and the decline in the U.S. dollar exchange premium, the directors decided to reduce the dividends declared in 1971 from $1.00 to 65 cents per share. The quarterly dividends we declared in 1971 were payable as follows: 20 cents on April 1; 20 cents on July 2; 10 cents on October 1 and 15 cents on January 3, 1972. The previous rate of $1.00 a share had been in effect since 1964.

Measures to Offset Drop in Earnings

To help offset the serious drop in earnings, we undertook stringent measures to reduce operating costs early in 1971. The entire woods operation was closed from April 8 to May 10 to bring about a reduction in pulpwood inventories and on April 14, a permanent layoff of over 150 employees including mill, woods and supervisory personnel was announced. All expenditures continue to undergo constant review.

We also pushed ahead in 1971 with our continuing efforts to reduce costs and improve productivity through up-dating and mechanizing operations wherever possible. A major advancement in this program is the complete mechanization of mill wood-handling and wood-processing facilities discussed in this report.



The drop in our U.S. dollar exchange premium began in June 1970 with the floating of the Canadian dollar as explained on page 6.

Sturdy mobile loaders help to reduce wood-handling costs and speed up delivery.

Pulpwood or saw logs are cut from tree-lengths by this mobile slasher.

$1.8 Million Drop in U.S. Dollar Exchange Premium

Our U.S. dollar exchange premium dropped from $2.4 million in 1970 to $648,000 in 1971. The decrease began in June 1970 when the federal government freed the Canadian dollar from its pegged value of 92½ cents U.S. currency and allowed it to find its own level in the international monetary market. As the Canadian dollar gained strength, the exchange premium on the U.S. dollar diminished, approaching parity by the end of 1971. Since virtually all our sales are in the U.S., the reduction in the exchange premium had a serious effect on our earnings. A chart on page 5 shows the important effect of the exchange premium on our earnings.

If the average 1970 exchange rate had prevailed in 1971, our net earnings after taxes would have been increased by $908,000 or 25 cents a share. Going back to 1969, before the dollar was unpegged, if the average exchange rate that year had been in effect in 1971, our net earnings would have been increased by $2.4 million or 67 cents a share. This takes into account any benefits we received from transactions involving the expenditures of U.S. dollars where the strengthened Canadian dollar worked in our favor.

New President and Senior Officers Appointed

On October 29 the directors announced the appointment of Charles J. Carter as president of the company. Mr. Carter joined the company in 1947, was appointed vice-president engineering in 1964 and elected a director in 1966.

Appointments of Cecil J. Jeffery, vice-president manufacturing and Murray D. Seeley, vice-president woodlands, as executive vice-presidents were also announced by the directors. Mr. Jeffery joined the company in 1947 and became vice-president in 1959, while Mr. Seeley, who joined the company in 1956, was made vice-president in 1961. Both men were elected directors of the company in 1966.

SALES & EARNINGS

'000 omitted

	Total Sales	Oper. Profit	Net Earnings
1971	$81,355	$13,446	$3,237
1970	79,667	15,728	4,345
1969	75,226	17,951	5,039
1968	66,086	14,455	3,089
1966	63,857	17,886	5,474
1962	38,360	13,186	4,356

Shipments

Total shipments of 506,589 tons were down 2.5 percent from 519,807 tons in 1970. Newsprint shipments of 340,516 tons, however, were 1.6 percent higher than 335,194 tons in 1970.

Kraft pulp shipments remained relatively steady in 1971 compared with 1970, but sulphite shipments were down due to a reduction in market demand for this product. As a result, chemical pulp shipments of 166,073 tons were ten percent lower than 184,613 tons in 1970.

Improved Prices and Record Total Sales

On April 1, 1971 the price of newsprint was raised $8 a ton which partially offset the serious erosion of our earnings.

Prices for our kraft pulp remained stable throughout 1971.

Improved prices for newsprint and the stability of our kraft pulp prices were responsible for our 1971 record sales of $81.4 million compared with the previous high of $79.7 million in 1970. Total sales are defined on page 23.

Depreciation Unchanged; Interest Down

Our depreciation of $5.8 million in 1971 was virtually the same as 1970. While sizable capital expenditures were made in 1971, we did not begin charging depreciation on the major construction projects until they were completed late in the year. An explanation of our depreciation practice is given in our accounting policy on page 21.

Depreciation, which includes depletion, is defined on page 23.

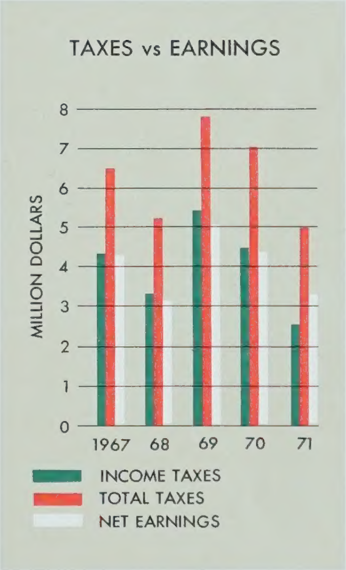
Interest on long-term debt decreased to $2.3 million from a high of $2.5 million in 1970. This charge will continue to diminish steadily as our long-term debt is reduced.

Yearly charges for both depreciation and interest since 1967 are shown in a chart on page 14.

Income Tax Reduction

As a result of significant changes in the tax structure, income taxes were charged at a rate of 43.7 percent against earnings in 1971 compared with 50.7 percent in 1970.

The biggest effect on our tax rate was provided by the Ontario Government five percent investment tax credit which applied to nearly all our capital expenditures committed after April 26, 1971, the date that the legislation became effective.



Total taxes include Ontario stumpage dues, ground rent, fire tax and municipal taxes. Income taxes were charged at a rate of 43.7 percent in 1971 as a result of Ontario and federal tax measures. (See opposite section.)

Other tax measures in 1971 which contributed to the drop in the income tax rate were the seven percent federal tax reduction and the elimination of the three percent federal surtax, both of which became effective on July 1, 1971.

Future Tax Changes

The federal Tax Reform Bill, which became law on January 1, 1972, provides for a reduction of one percentage point in the basic corporation tax rate in each of the years from 1973 to 1976, inclusive.

The favorable affect of the Tax Reform Bill on our future earnings, however, will be offset by the expiry of the seven percent federal tax reduction at the end of 1972 and the Ontario Government five percent investment tax credit in early 1973. Furthermore, the benefit we received in 1971 from the Ontario Government tax credit will decline due to an anticipated drop in capital expenditures.

Total shipments of 506,589 tons in 1971 were down slightly from 519,807 tons in 1970, which was a record. Newsprint shipments of 340,516 tons in 1971 were up, while chemical shipments of 166,073 were down mainly due to reduced sulphite shipments.

Profit Margin Reduced

Profit margin means net earnings as a percentage of total sales. Because of lower net earnings, our profit margin of four percent for 1971 was down from 5.5 percent in 1970 which is the lowest point in the past ten years. The chart on page 13 shows profit margin over the past ten years.

Cash Flow Down

Our cash flow, defined on page 23, was $9.7 million in 1971, down 2.5 percent from $10 million in 1970. As the chart on page 9 illustrates, cash flow has dropped off since 1969 but is above the low point in 1968.

In 1971 our cash flow comprised the following items: $3.2 million in total net earnings; $5.8 million in depreciation and depletion charges and $630,000 in deferred income taxes. Explanation of our policy on deferred income taxes is given on page 21.

Working Capital Reduced

Our working capital at the end of 1971 amounted to $12.4 million versus $20.6 million in 1970. The reduction in 1971 reflects $11.2 million for capital expenditures and $4.4 million for reduction of long-term debt.

Our long-term debt balance on December 31, 1971, after deducting the amount due in 1972, was $27.8 million. Our 5 percent sinking fund debentures and 5¾ percent serial debentures, Series B, will be fully retired during 1972.

Details of our bonds and debentures are shown on our consolidated balance sheet on page 19.

Capital Expenditures

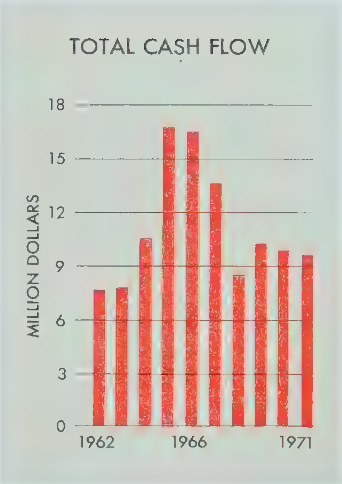
A total of $11.2 million was spent in 1971 on additions to existing facilities. This included $6.8 million towards a new wood-handling and wood-processing system and $1 million for the completion of a solid waste disposal system. Both installations are explained below. The balance was spent on a number of smaller projects to modernize and improve the efficiency of mill and woodlands operations and the quality of our products. The level of capital expenditures will be considerably lower in 1972.

Wood-handling and Wood-processing

Early in 1972 we will complete our new mill wood-handling system, described in detail in the inside back cover fold-out. As well as providing an efficient, highly centralized facility, the new system introduces important economies in our operations through mechanization, minimizes pollution by means of a newer, more efficient method of debarking, reduces pulpwood inventories and generally improves the efficiency of wood delivery to the mill. The system will also eliminate waste by reclaiming leftover parts of logs that were previously burned and by disposing of all bark and debris. The new facility represents a thoroughly modern approach to the whole concept of wood-handling which would not have been feasible without the improvements in our wood delivery system discussed in the woodlands mechanization item on page 11.

Hot Water Generator and Solid Waste Disposal

Associated with the new wood-handling facility is the solid waste disposal unit shown in the photograph on page 10 which generates hot water required by the wood-handling system. First of its kind in Canada, the installation, known as a fluidized bed reactor, completely incinerates all non-usable wastes along with general mill debris and sludge resulting from our effluent treatment system without creating air pollution.



Our cash flow of $9.7 million in 1971 was down 2.5 percent from 1970 but above the low in 1968. High levels in the mid-1960's were largely due to tax deferments resulting from the construction of the kraft mill.

CASH FLOW

Year	Per Share	Per Ton*
1971	$2.70	$19.17
1970	2.77	19.17
1969	2.86	19.89
1968	2.36	18.06
1967	3.78	27.62
1965	4.63	47.29
1962	2.11	26.14

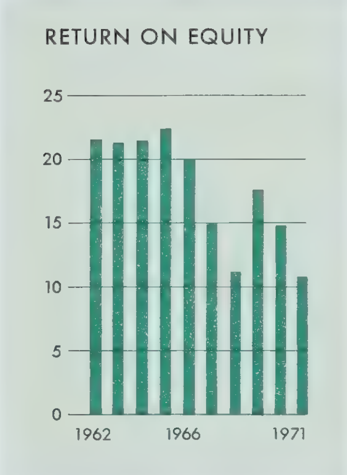
*Per ton of total shipments on page 24.

Liquid Waste and Odor Control

Our primary treatment system for mill liquid wastes, commonly called effluent, went into full operation during the year, in accordance with Ontario Government requirements for the removal of suspended solids, neutralization of our effluent and foam control. This marks the completion of a construction project that began in 1965 with the building of the kraft pulp mill. The system includes such items as four huge settling tanks, two of which measure 160 feet in diameter with 12-foot side walls, a blending system to neutralize acid and alkali effluent, a 60,000-gallon-per-minute pumping station, a data-gathering system and control centre and a 1,350-foot interceptor sewer system.

In 1971 we made further progress with our pilot plant studies of secondary treatment methods using biological systems. This phase of our effluent control program, while still in the early stages of development, is now beginning to indicate encouraging results.

We have also been successful in greatly reducing odors and other types of discharges resulting from our manufacturing processes. While we have made significant progress in air pollution abatement and effluent control, our technical and engineering staffs continue to work closely with the regulatory authorities and outside experts in their efforts to improve our control systems. Since 1964 we have spent a total of $12.2 million on all facilities to combat pollution, including the provision for such facilities in the hot water generating system and the new wood-handling facility.



Net earnings as a percentage of shareholders' equity at year-end; shareholders' equity is defined in the glossary of terms on page 23.

Woodlands Mechanization

During 1971 our company made steady progress towards its ultimate goal of complete mechanization of its logging operations. We are now at the stage where a large part of our operations is fully mechanized, from the cutting of trees to final delivery of pulpwood in the mill yard. The objectives of our mechanization program are to enable us to produce the large volume of pulpwood required by the mill, reduce the cost of our operations and create favorable working conditions for our employees.

Our highly mechanized operations together with our 1,100-mile network of excellent all-weather roads, ensure a steady flow of pulpwood that closely parallels mill requirements. Pulpwood inventory at the mill, railhead spurs and in the forest areas is now held to a minimum.

Completed in 1971, this new anti-pollution system disposes of solid wastes as explained on page 9.

One of our largest trailer trucks capable of transporting 40 tons.

One of our newest machines is shown on the inside front cover of this report. Known as the short-wood harvester, the unit cuts trees mechanically, delimbs and shears them into eight-foot lengths automatically and collects the pulpwood in a seven-cord cradle at the rear. When it accumulates a full load, it carries the pulpwood to roadside and piles it ready for pickup and delivery by truck to railhead or mill.

Progress is also being made in increasing the efficiency and productivity of transportation. Large trailer trucks capable of moving 40 tons of eight-foot wood are loaded and unloaded by mobile rubber-tired loaders, similar to the one in the photograph on page 4. Railway cars in general use are capable of carrying up to 80 tons of wood. Some of our operating areas are served by pulpwood delivery trains on a daily basis.

Forest Regeneration

Reforestation and silvicultural programs conducted in our forest areas under a co-operative arrangement between the Ontario Department of Lands and Forests and our company, set records in 1971. Some 5,000 acres were treated for natural regeneration by a process known as scarification shown in the photograph on page 14. Huge chain links, seen in the photograph, are dragged by bulldozer across cutover areas exposing the mineral soil which assists nature in germinating seeds for new trees. Some 1,550 acres were prepared for seeding and planting and a record four million seedling trees were planted.

New techniques were developed jointly with the Ontario Government in 1971 to promote efficient regeneration on highland sites through the introduction of up-dated equipment such as a combined scarification and seeding unit. Planting of one-year-old seedling trees contained in plastic tubes, as well as improved storage, shipping and handling methods of small rooted trees, have all helped to increase the effectiveness of tree planting. We are attempting to find better ways to assist natural regeneration, increase productivity of current regeneration methods and improve the survival rate of planted trees.

In 1971 we made substantial progess in producing saw logs, tie blocks, poles and veneer bolts for other wood-using industries. This practice, known as integrated logging, is carried out in conjunction with our regular pulpwood operation and ensures better utilization of our wood resources.

1971 BY QUARTERS

'000 omitted

Quarter	Total Sales	Oper. Profit	Net Earnings
First	$20,025	$ 2,657	$ 323
Second	20,088	4,045	989
Third	19,957	3,503	925
Fourth	21,285	3,241	1,000
	$81,355	$13,446	$3,237

Total sales are before dollar exchange; the other two items include profit from U.S. dollar exchange.

NET BY QUARTERS

Net earnings per share of total shares.

Quarter	1971	1970	1969	1968
First	$0.09	$0.26	$0.27	$0.15
Second	0.27	0.28	0.34	0.24
Third	0.26	0.25	0.29	0.14
Fourth	0.28	0.42	0.50	0.33
	$0.90	$1.21	$1.40	$0.86

Our Woodlands Area and Multiple Use

The 15,242 square miles of woodland area shown on the back cover of this report are held by the company under long-term leases from the Ontario Government with renewal options.

The continued development of our forest areas for the harvesting and improvement of tree crops has resulted over the years in the construction of an extensive all-weather gravel road network. As well as serving our use, these roads open more and more areas for public recreational activities and fire protection. We wholeheartedly support the concept of multiple use of forest areas and a growing healthy forest.

Labor Union Agreements

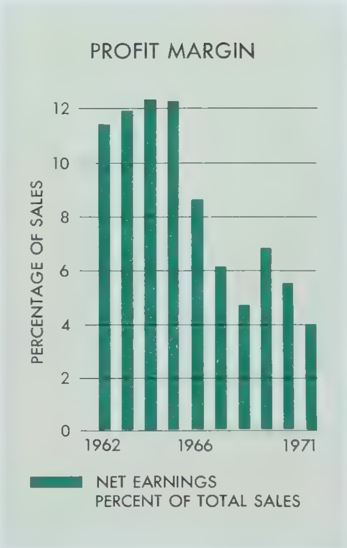
During 1971, agreements were in effect with the six labor unions representing employees in our company. Agreements with the following five unions, which were completed in 1970, are firm until April 30, 1973: International Union of Operating Engineers, Local 865; United Papermakers and Paperworkers, Local 257; International Brotherhood of Pulp, Sulphite and Paper Mill Workers, Local 39; Office and Professional Employees International Union, Local 386 and International Brotherhood of Electrical Workers, Local 1565. The sixth agreement was completed in January, 1971 with Lumber and Sawmill Workers Union, Local 2693, of the United Brotherhood of Carpenters and Joiners of America and is in effect until August 31, 1972.

Newsprint Capacity

Capacities of newsprint mills in Canada are rated on a standard formula of performance per day; annual capacities are these daily ratings multiplied by the number of work-days a mill has in a year. Our rated capacity of 437,480 tons for 1972 is on the basis of continuous operation, seven days a week. While seven-day operation is available to us under agreement with our unions, we have not yet had the opportunity of using the additional production. Thus we enter 1972 with a reserve of capacity to meet future growth in our customers' newsprint demand.

Outlook

The economies realized from our new mill wood-handling system will begin to have a noticeable effect on costs in 1972 and we will continue to seek



Our net earnings of $3.2 million were four percent of total sales in 1971, down from 5.5 percent in 1970.

EARNINGS PER TON

Net earnings in dollars per ton of total shipments have been as follows:

1971	1970	1966	1962
$6.39	$8.36	$11.81	$14.98

Regeneration of forests is aided by this apparatus discussed on page 12.

The drop in depreciation in 1970 was due to the change from the diminishing balance method to the straight-line basis explained in our accounting policy on page 21.

every opportunity to up-date and mechanize our operations to offset rising costs. In many cases, the introduction of up-dated methods is extensive in scope and requires a whole new approach to operating situations as explained in various sections of this report.

While these measures help us to exercise some control over rising operating costs, we continue to be seriously affected by factors outside our control such as the U.S. dollar exchange rate, freight and power rates, taxes and other government charges. Even though our income tax rate was lower in 1971, it was still substantially above the corporate tax rate paid by our competitors in the U.S. and Scandinavia. As an indication of the seriousness of the exchange situation, each one percent change in the U.S. dollar exchange rate, based on our 1971 total sales, affects our annual net earnings by 12 cents a share.

We increased our newsprint shipments in 1971 despite a slight decline in U.S. demand. We believe there is a brighter future for the newspaper publishing industry and we expect our newsprint shipments will increase gradually with the anticipated recovery of U.S. and world markets.

In spite of weakening demand for kraft pulp, we held our position in that market in 1971 and we expect to maintain the level of our shipments in 1972. Over the longer term, the outlook for chemical pulp is encouraging. There is a large market for kraft pulp in such fast-growing areas as disposables for medical and home use and a growing variety of paper products that demand our type and quality of pulp.

Although we expect an improvement in our shipments in 1972, our earnings will continue to be affected by ever-increasing operating costs, the serious problem of the dollar exchange rate and the competitive situation in our markets.

While weakness in international markets has restricted the ability of the Canadian pulp and paper industry to maintain adequate profit margins, we believe that prices should strengthen and earnings return to more reasonable levels with the anticipated improvement in demand. This is essential if our industry is to maintain its economic health.

With our modern mechanized mill and woodlands facilities, quality products, high grade northern softwood resources and our favorable geographical location, we believe we are in a position to benefit from the opportunities that lie ahead.

NEWSPRINT PAPER

Rated capacities of newsprint producers in Canada and other newsprint data may be obtained from reports issued by Canadian Pulp and Paper Association, on which the tables below are based. World totals in these tables omit communist countries for which reliable information is lacking and some of the 1971 figures are subject to revision by CPPA.

TOTAL WORLD SUPPLY

'000 tons	1971	1970	1965	1960
World capacity	23,722	23,093	18,687	16,009
World production	20,605	20,912	16,839	14,017
Operating ratio (%)	86.9	90.6	90.1	87.6

CANADIAN PRODUCTION

'000 tons	1971	1970	1965	1960
Total capacity	10,050	9,719	8,421	7,611
Tons produced	8,297	8,607	7,720	6,739
Excess capacity	1,753	1,112	701	872
Operating ratio (%)	82.6	88.6	91.7	88.5

CANADIAN PERCENTAGES

	1971	1970	1965	1960
Of world capacity	42.4	42.1	45.1	47.5
Of U.S. supply	64.1	63.9	72.0	71.5
Of world production	40.3	41.2	45.8	48.1
Of world exports	71.0	72.0	75.1	77.6

WORLD DEMAND & IMPORTS

'000 tons	1971	1970	1965	1960
Total demand	21,060	21,268	16,958	14,201
Total imports	11,080	11,322	9,596	8,192
Import % of total	52.6	53.2	56.6	57.7

CANADIAN SHIPMENTS

'000 tons	1971	1970	1965	1960
Tons to U.S.	6,114	6,145	6,093	5,279
To overseas markets	1,376	1,731	1,063	986
To Canadian buyers	720	716	590	487
Total tons shipped	8,210	8,592	7,746	6,752

U.S. SUPPLY SOURCES

'000 tons	1971	1970	1965	1960
Tons from Canada	6,114	6,145	6,093	5,279
From U.S. mills	3,127	3,162	2,118	1,954
From Europe	301	314	255	147
Total tons of supply	9,542	9,621	8,466	7,380

BLEACHED KRAFT PULP

The U.S. is by far the largest user of chemical pulp. In 1971 U.S. demand for market bleached kraft pulp was 2.8 million tons, which was 33 percent of total world demand of 8.4 million tons. These amounts and the tables below represent the free movement of market pulp and do not include shipments between integrated buyers and sellers. Canada's shipments to this market represent 53 percent of the total U.S. supply in 1971.

In 1970 consumption of bleached kraft pulp by non-communist countries was 27 million tons.This data was not available for 1971 but it is expected to be close to the 1970 figure.

CANADIAN SHIPMENTS

'000 tons	1971	1970	1965	1960
Tons to U.S.	1,491	1,518	983	873
To overseas markets	1,657	1,783	488	222
To Canadian buyers	366	438	254	117
Total tons shipped	3,514	3,739	1,725	1,212

U.S. SUPPLY SOURCES

'000 tons	1971	1970	1965	1960
Tons from Canada	1,491	1,518	983	873
From U.S. mills	1,329	1,171	935	531
From Scandinavia	4	15	161	86
Total tons of supply	2,824	2,704	2,079	1,490

Source: CPPA

Source and Application of Funds

consolidated statement for years ended December 31st (thousands of dollars)

	1971	1970
SOURCE OF FUNDS		
Net earnings as reported on page 17	$ 3,237	$ 4,345
Charges not requiring an outlay of funds		
Depreciation and depletion	5,843	5,873
Increase (decrease) in deferred income taxes	630	(255)
FUNDS FROM OPERATIONS	9,710	9,963
Other source		
Sale of fixed assets	29	161
	9,739	10,124
APPLICATION OF FUNDS		
Expenditures on fixed assets	11,191	7,446
Reduction of long-term debt	4,401	4,803
Dividends declared	2,342	3,603
	17,934	15,852
DECREASE IN WORKING CAPITAL	(8,195)	(5,728)
WORKING CAPITAL at beginning of year	20,606	26,334
WORKING CAPITAL at end of year	$12,411	$20,606

Earnings and Retained Earnings

consolidated statement for years ended December 31st (thousands of dollars)

	1971	1970
Total sales, defined on page 23	$81,355	$79,667
U.S. dollar exchange premium	648	2,445
	82,003	82,112
Cost of sales and delivery expense	66,853	64,644
Selling and administrative expenses	1,704	1,740
OPERATING PROFIT	13,446	15,728
Other income, including term deposit interest	450	1,502
	13,896	17,230
Interest on long-term debt	2,306	2,537
Depreciation and depletion	5,843	5,873
EARNINGS before income taxes	5,747	8,820
Income taxes	2,510	4,475
NET EARNINGS for year	3,237	4,345
Retained earnings at beginning of year	26,596	25,854
	29,833	30,199
Dividends declared	2,342	3,603
RETAINED EARNINGS at end of year	$27,491	$26,596
NET EARNINGS PER SHARE	$0.90	$1.21

Consolidated

at December 3

ASSETS	1971	1970
CURRENT ASSETS		
Cash	$ 627	$ 980
Short-term deposits including accrued interest	945	9,638
Accounts receivable	13,121	13,251
Income taxes recoverable	879	—
Inventories at cost or net realizable value, whichever is lower:		
Finished goods	578	546
Stores, pulpwood and other raw materials	6,206	5,446
Expenditure on pulpwood operations	2,969	3,287
Prepaid insurance and other expenses	210	176
	25,535	33,324
FIXED ASSETS—at values placed thereon at the inception of the company with subsequent additions at cost:		
Land, buildings, machinery, woodlands improvements and equipment	139,863	128,932
Accumulated depreciation	78,397	72,937
	61,466	55,995
Woodlands under lease	3,945	3,945
Accumulated depletion	3,845	3,693
	100	252
Signed on behalf of the Board:	61,566	56,247
C. J. CARTER, *Director*		
R. G. MEECH, *Director*	$87,101	$89,571

Balance Sheet

(thousands of dollars)

LIABILITIES	1971	1970
Current Liabilities		
Accounts payable and accrued charges	$ 7,507	$ 6,725
Income and other taxes payable	857	447
Dividend payable	540	901
Current portion of long-term debt	4,220	4,645
	13,124	12,718
Long-Term Debt (Note 3)		
First Mortgage Bonds		
4% sinking fund bonds, Series A, maturing 1975	6,141	6,880
8% sinking fund bonds, Series B, maturing 1989	19,600	20,000
Debentures		
5% sinking fund debentures maturing 1976	600	1,651
5¾% serial debentures, Series B, maturing 1972 ($1,420,000 U.S. funds)	1,526	3,064
5¾% serial debentures, Series C, maturing 1972-1975 ($4,000,000 U.S. funds)	4,300	5,375
	32,167	36,970
Portion due within one year	4,401	4,803
	27,766	32,167
Deferred Income Taxes	16,155	15,525
SHAREHOLDERS' EQUITY		
Common shares without par value (Note 4)		
Authorized 4,500,000 shares		
Issued 3,602,603 shares	2,565	2,565
Retained earnings	27,491	26,596
	30,056	29,161
	$87,101	$89,571

Notes to the Financial Statements

1. Exchange Conversion

U.S. dollar current assets and current liabilities, including the current portion of long-term debt repayable in U.S. funds, have been stated in Canadian dollars at the 0.5 percent U.S. dollar exchange premium in effect at December 31, 1971. Long-term debt repayable in U.S. funds (less the current portion) has been converted to Canadian funds at the 7½ percent U.S. dollar exchange premium in effect at date of issue.

2. Lease Commitments

The company has signed leases (with options to purchase) covering certain woodlands camps and equipment for periods of three to seven years. The payments under these leases amounted to $815,000 in 1971. Payments will amount to $610,000 in 1972 and thereafter in reducing amounts to $50,000 in 1974.

3. Long-Term Debt Retirement

Payments (expressed in Canadian funds) required to meet serial maturities and sinking fund provisions of long-term debt over the next five years approximate $4.4 million in 1972, $2.4 million in each of the years 1973 and 1974, $5.4 million in 1975, and $600,000 in 1976. The 5% debentures maturing in 1976 will be retired in 1972 by the operation of the sinking fund.

4. Common Shares

Common shares were reserved at December 31, 1971 for the following:

(a) 178,538 shares for outstanding options entitling customers to acquire, under the terms of the options, shares at $25.00 per share exercisable not later than December 31, 1973.

(b) 49,480 shares under a share option plan for the granting of options to certain executive and other employees of the company or of any subsidiary of the company. Options to acquire, under the terms of the plan, 23,800 shares at $24.50 per share exercisable not later than June 1, 1975 were outstanding at December 31, 1971.

(c) 200,000 shares for the common share purchase warrants which accompanied the First Mortgage Sinking Fund Bonds, Series B. The warrants are exercisable at $31.00 per share up to July 1, 1974 and at $33.00 per share from that date until July 1, 1979 when the warrants expire.

5. Dividend Restriction

The trust deeds securing the long-term debt contain the restriction that after any dividend is declared working capital (which for these purposes is before the deduction of the current portion of long-term debt) must be over $5 million and retained earnings must be over $7.5 million.

6. Executive Remuneration

Directors' fees amounted to $62,000 in 1971 and the total remuneration, including directors' fees, received by the directors and senior officers amounted to $423,000 in 1971.

7. Past Service Pension Costs

Based on actuarial reports, unfunded past service pension costs resulting from retroactive increases in benefits amounted to $1.3 million at December 31, 1971. Past service costs are being amortized over 20-year periods from the dates such costs were established. The amount charged to earnings was $151,000 in 1971.

Auditors' Report to the Shareholders

To the Shareholders of The Great Lakes Paper Company, Limited

We have examined the consolidated balance sheet of The Great Lakes Paper Company, Limited and its subsidiaries as at December 31, 1971 and the consolidated statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

RIDDELL, STEAD & CO.
Chartered Accountants

TORONTO, ONTARIO, January 21, 1972

* * *

OUR ACCOUNTING POLICY AND METHODS

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles applied on a consistent basis over the years. Significant items are explained below and in notes to the financial statements on page 20.

Inventories

In general, our inventories are valued at average cost which is less than the net amount we would realize from our selling price for the finished product, after deducting cost of completing manufacture and delivery.

Fixed Assets

Land, buildings, machinery, woodlands improvements and equipment are carried at the values placed on them at the inception of this company in 1936, which were the estimated costs to the predecessor company, with subsequent additions at cost. The assets stated at inception values amount to approximately $10 million at estimated cost and are fully depreciated.

The value of woodlands under lease at the inception of the company was determined by deducting the value of all other assets from the liabilities of the company, including issued share capital. Such inception value represents approximately $2.8 million. Subsequent additions carried at cost bring the present balance up to $3.9 million.

Depreciation and Depletion

Depreciation on mill buildings, machinery and equipment, representing over 90 percent of our total fixed assets, is calculated on the straight-line basis at a composite rate of 4½ percent per year, which is based on estimates of the economic lives of our assets. Before 1970, such assets were depreciated on a diminishing balance basis at a rate of ten percent per year.

Figures in this report for the years prior to 1970 have not been restated.

Woodlands improvements and equipment are depreciated on the diminishing balance basis at a rate of 30 percent per year. This rate reflects the shorter life of logging equipment.

In line with accepted practice, we do not charge depreciation on major projects against our earnings until construction has been completed. For this purpose, we define a major project as one costing over $500,000.

Depletion of our natural resources is included with depreciation in the financial statements and represents about two percent of the total.

Deferred Income Taxes

In the first few years following acquisition of a capital asset, the depreciation we claim for income tax purposes under present tax law exceeds the depreciation we actually show in our financial statements. This situation is reversed, however, in later years. As a result, the taxes charged to earnings during the initial period exceed actual tax payments. The excess amounts are set aside as deferred income taxes to be drawn upon in future years when the amount of taxes charged to earnings falls below actual tax payments.

FINANCIAL SUMMARY: LAST TEN YEARS

Except as indicated, dollars are in thousands with 000 omitted.	1971	1970	1969	1968	1967
SALES & EARNINGS					
Total sales	81,355	79,667	75,226	66,086	69,223
U.S. dollar exchange premium	648	2,445	5,518	4,737	5,123
Operating profit	13,446	15,728	17,951	14,455	17,511
Interest on long-term debt	2,306	2,537	2,036	1,440	1,673
Depreciation and depletion (see note below)	5,843	5,873	6,528	6,881	7,506
Earnings before income taxes	5,747	8,820	10,446	6,359	8,510
Income taxes	2,510	4,475	5,407	3,270	4,300
Net earnings	3,237	4,345	5,039	3,089	4,210
Net earnings per share (see note below)	0.90	1.21	1.40	0.86	1.17
Net earnings per ton of total shipments (tons on page 24)	6.39	8.36	9.72	6.55	8.53
Dividends declared, total amount	2,342	3,603	3,603	3,603	3,602
Dividends per share; in cents	65	100	100	100	100
Dividend percentage of earnings per share	72	83	71	116	86
ASSETS & LIABILITIES					
Current assets	25,535	33,324	41,073	21,360	20,655
Current liabilities	13,124	12,718	14,739	14,221	12,485
Ratio of above assets to liabilities	1.9	2.6	2.8	1.5	1.6
Working capital	12,411	20,606	26,334	7,139	8,170
Inventories, described in balance sheet	9,753	9,279	9,440	9,184	11,464
Fixed assets, described in balance sheet	139,863	128,932	122,282	120,096	118,656
Accumulated depreciation and depletion	82,242	76,630	71,392	65,309	59,111
Long-term debt	27,766	32,167	36,970	21,343	25,686
Above debt as percentage of capitalization	48.0	52.5	56.5	43.7	47.8
Deferred income taxes, explained on page 21	16,155	15,525	15,780	17,030	18,480
Retained earnings, at year-end	27,491	26,596	25,854	24,949	25,463
EQUITY & OTHER DATA					
Common shares outstanding (see note below)	3,602,603	3,602,603	3,602,603	3,602,603	3,602,603
Number of shareholders, at year-end	4,919	5,209	5,418	6,202	6,402
Percentage of shares held in Canada, at year-end	95.5	95.3	93.1	94.2	93.8
Shareholders' equity, total	30,056	29,161	28,419	27,514	28,028
Shareholders' equity per share	8.34	8.09	7.89	7.64	7.78
Net earnings percentage return on above equity	10.8	14.9	17.7	11.2	15.0
Net earnings percentage on total sales	4.0	5.5	6.7	4.7	6.1
Total cash flow	9,710	9,963	10,317	8,520	13,630
Cash flow per share	2.70	2.77	2.86	2.36	3.78
Annual expenditures on fixed assets	11,191	7,446	2,704	2,222	3,671
Number of employees on payroll, at year-end	2,527	2,768	2,857	2,693	2,590

All per share figures are based on shares outstanding at the end of the respective years.

Production and shipments are summarized on page 24.

1966	1965	1964	1963	1962
63,857	46,872	41,150	39,195	38,360
4,383	3,434	2,986	2,903	2,598
17,886	15,746	14,068	13,523	13,186
1,478	774	821	863	913
5,637	3,167	3,032	3,131	3,285
10,924	11,863	10,417	9,672	9,086
5,450	6,165	5,370	5,000	4,730
5,474	5,698	5,047	4,672	4,356
1.52	1.58	1.40	1.30	1.21
11.81	16.15	16.13	15.74	14.98
3,600	3,600	3,600	2,880	2,340
100	100	100	80	65
66	63	71	62	54
23,080	19,734	14,855	20,248	18,240
16,964	11,235	5,879	6,015	6,260
1.4	1.8	2.5	3.4	2.9
6,116	8,499	8,976	14,233	11,980
11,879	9,308	7,262	7,236	8,028
115,269	102,419	74,653	63,846	62,818
51,822	46,734	43,921	41,224	38,858
30,009	34,313	38,596	18,138	19,180
52.3	57.4	62.3	45.3	48.8
16,565	11,115	3,295	873	735
24,855	22,981	20,883	19,436	17,643
600,523	3,600,083	3,600,000	3,600,000	3,600,000
6,632	6,926	6,340	6,295	6,077
93.6	93.7	92.9	93.3	92.7
27,367	25,483	23,383	21,936	20,143
7.60	7.08	6.50	6.09	5.60
20.0	22.4	21.6	21.3	21.6
8.6	12.2	12.3	11.9	11.4
16,562	16,684	10,501	7,941	7,601
4.60	4.63	2.92	2.21	2.11
13,558	28,093	11,115	1,767	3,079
3,077	2,406	2,100	1,890	1,873

Figures for the years prior to 1970 have not been restated to reflect change in depreciation basis as explained in our accounting policy on page 21.

GLOSSARY OF TERMS

TOTAL SALES: Total amount we obtain from the sale of our products before deducting costs of delivery to customers and before dollar exchange.

OPERATING PROFIT: Profit we get from manufacture and sale of our products after deducting all costs except interest charges, depreciation and depletion, and income taxes. Applies to operations only; does not include investment or other form of income.

DEPRECIATION: The distribution on a yearly basis of the original cost of a fixed asset (defined below) over its estimated useful life, which we write off as a deduction from earnings. Our method of application and details of our policy are fully explained on page 21 in this report.

DEPLETION: Similar to depreciation but applies to our usage of pulpwood from our licensed forest areas.

NET EARNINGS: Our total income less all costs; the net amount available to pay dividends or retain for use in our business.

CASH FLOW: Total funds generated by operations in a year. In our case, cash flow includes net earnings and charges not requiring cash outlay such as depreciation and depletion and the amount by which deferred income taxes have increased or decreased during the year.

RETAINED EARNINGS: Accumulated total of our annual net earnings since the start of the company (1936) less dividends to shareholders during the same period and after taking into account extraordinary items such as bond and debenture issue discount and expense.

CURRENT ASSETS: Cash and all assets we can normally expect, within a year, to convert into cash or to consume in the process of earning income.

FIXED ASSETS: Long-term assets, such as land, buildings, plant and equipment, which we hold for earning income rather than for sale or conversion.

CURRENT LIABILITIES: Amounts we owe (including a portion of long-term debt) due for payment within one year.

LONG-TERM DEBT: Amounts we owe from borrowing money by issues of bonds and debentures.

SINKING FUND: Amounts we pay to independent trustees of our bond and debenture issues, as stipulated in the trust deeds of these issues, to provide annual instalments for their redemption.

WORKING CAPITAL: Amount by which our current assets exceed our current liabilities, both as defined above. This is a measure of our working or operating resources.

BALANCE SHEET: Statement of our financial position at a year-end showing what we possess (assets of all kinds) versus what we owe (liabilities of all kinds) and shareholders' equity; set forth in accordance with The Business Corporations Act (Ontario). The word "consolidated" means that all subsidiaries are included to show position of our enterprise as a whole.

SHAREHOLDERS' EQUITY: Value of the shareholders' ownership or interest in the company, shown on our balance sheet. Consists of share capital plus retained earnings and is the amount by which our assets exceed our liabilities.

TONNAGE SUMMARY: LAST TEN YEARS

Financial Summary on two preceding pages: 22 and 23.

TONS OF PRODUCTS SHIPPED TO CUSTOMERS

Years	Newsprint	Chemical Pulps	Total Tons
1962	268,943	21,839	290,782
1963	275,686	21,067	296,753
1964	296,059	16,744	312,803
1965	337,045	15,737	352,782
1966	374,081	89,322	463,403
1967	362,443	131,020	493,463
1968	314,503	157,262	471,765
1969	350,709	167,918	518,627
1970	335,194	184,613	519,807
1971	340,516	166,073	506,589

In both newsprint and pulps, annual shipments sometimes exceed production and vice versa. These differences between production and shipments are balanced by inventory changes and are so negligible that our shipments of chemical pulps recorded above may be taken as representing also our production of these pulps for sale to customers. Our kraft pulp mill started operation in the month of April 1966.

NEWSPRINT TONS AND OPERATING RATIO

Years	Capacity	Production	Ratio (%)
1962	356,356	269,794	75.7
1963	356,048	272,956	76.7
1964	370,182	296,903	80.2
1965	368,676	336,377	91.2
1966	389,914	374,672	96.1
1967	422,956	363,977	86.1
1968	428,868	311,237	72.6
1969	437,030	350,795	80.3
1970	442,078	335,550	75.9
1971	441,124	340,539	77.2

For 1972 our newsprint capacity is rated by the Canadian Pulp and Paper Association as 437,480 tons. Since 1967 capacity has been rated on the basis of continuous operation.

BOARD OF DIRECTORS

ROBERT A. BROWN, JR. . . . . Calgary *president, Home Oil Company Limited*		1969
KEITH CAMPBELL . . . . Montreal *vice-president, administration, Canadian Pacific Limited*		1971
*C. J. CARTER . . . . Thunder Bay *president, Great Lakes Paper Company*		1947
*PERCY M. FOX . . . . Bermuda *chairman of the board, Great Lakes Paper Company*		1952
C. J. JEFFERY . . . . Thunder Bay *executive vice-president, Great Lakes Paper Company*		1947
*IRWIN MAIER . . . . Milwaukee, Wisconsin *chairman, The Journal Company*		1968
C. BLAKE MCDOWELL . . . . Akron, Ohio *director and general counsel, Knight Newspapers Inc.*		1952
*R. G. MEECH, Q.C. . . . . Toronto *director, National Tea Co.*		1936
K. A. MINERS . . . . London, Ont. *retired*		1948
B. H. RIDDER, JR. . . . . St. Paul, Minnesota *president, Ridder Publications, Inc.*		1957
MURRAY D. SEELEY . . . . Thunder Bay *executive vice-president, Great Lakes Paper Company*		1956
*IAN D. SINCLAIR . . . . Montreal *president and chief executive officer, Canadian Pacific Limited*		1969
RUSS STEWART . . . . Chicago *senior vice-president, Field Enterprises Inc., publishers of Chicago Sun-Times and Chicago Daily News*		1957
G. GORDON STRONG . . . . Canton, Ohio *president & publisher, Thomson-Brush-Moore Newspapers, Inc.*		1968

**Members of the Executive Committee.*

Years denote beginning of connection with the company.

MANAGEMENT

PERCY M. FOX, *chairman of the board* 1952

C. J. CARTER, *president* 1947

C. J. JEFFERY, *executive vice-president* 1947

MURRAY D. SEELEY, *executive vice-president* 1956

C. R. CADDO, *secretary* 1929

C. R. BOWLES, *treasurer & comptroller* 1964

D. D. MORROW, *assistant treasurer* 1964

K. E. WINROW, *assistant comptroller* 1971

M. G. REA, *assistant secretary* 1969

F. H. TOLLEFSEN, *manager, information services* 1966

Our former president C. J. Warwick Fox was a director until his death in September 1971.

NEWSPRINT SERVICES

Lake Superior Newsprint Co., Chicago, servicing of newsprint paper contracts: BRUCE FALLOWS, *president;* W. D. FROST, J. H. NETHERLAND, R. A. SCHMIDT, *vice-presidents.*

SALE OF PULP

Lake Superior Pulp & Paper Inc., Chicago and White Plains, N.Y., sale of kraft and sulphite: BRUCE FALLOWS, *president;* R. L. NASH, *vice-president.*

AGENTS AND REGISTRAR

Our transfer agents are The Royal Trust Company, Toronto, Montreal, Calgary and Regina, and the Bank of Montreal Trust Company in New York. Our registrar is The Canada Trust Company, Toronto, Montreal, Calgary and Regina.

diagram under this page

To meet the growing competitive challenge facing our industry, we must continue to mechanize our operations wherever we can see worthwhile opportunities to cut costs and improve productivity. In 1971 we revised our entire method of receiving, handling and processing wood in the mill yard with the completion of a unique fully mechanized system developed in Sweden and used here in our mill for the first time in North America.

Wood is transported to the mill by rail and truck in carefully scheduled deliveries enabling us to keep inventories of pulpwood to a minimum along what we call our supply "pipeline". This tighter control of inventories also helps to hold costs down.

The drawing shows our new woodroom and the various courses the wood must follow as it is processed. Because of a high degree of automation, the system requires a minimum amount of manpower to control its operation.

The drawing is rather complicated but is useful in providing a detailed explanation of our new wood-handling system. Following are the key components of the system.

1 Mobile unloader carries eight-foot logs to the receiving decks.

2 De-icing deck thaws frozen wood intended for sulphite or groundwood pulp, both used in newsprint production.

3 & 4 Newsprint wood passes through either one of the two debarking drums. Both measure 150 feet in length and ten feet in diameter.

5 Eight-foot logs are conveyed from here directly to the sulphite chipper (6) or to secondary debarking (10), if required.

6 Wood is chipped and screened for sulphite pulp production and conveyed by air pressure through a pipeline (7) to the sulphite digester where the pulping process takes place.

8 Wood intended for the groundwood process is cut to four-foot lengths on the slashing deck and sent through secondary debarking, if required, or directly to the main conveyor belt (9) which carries the logs to the groundwood mill.

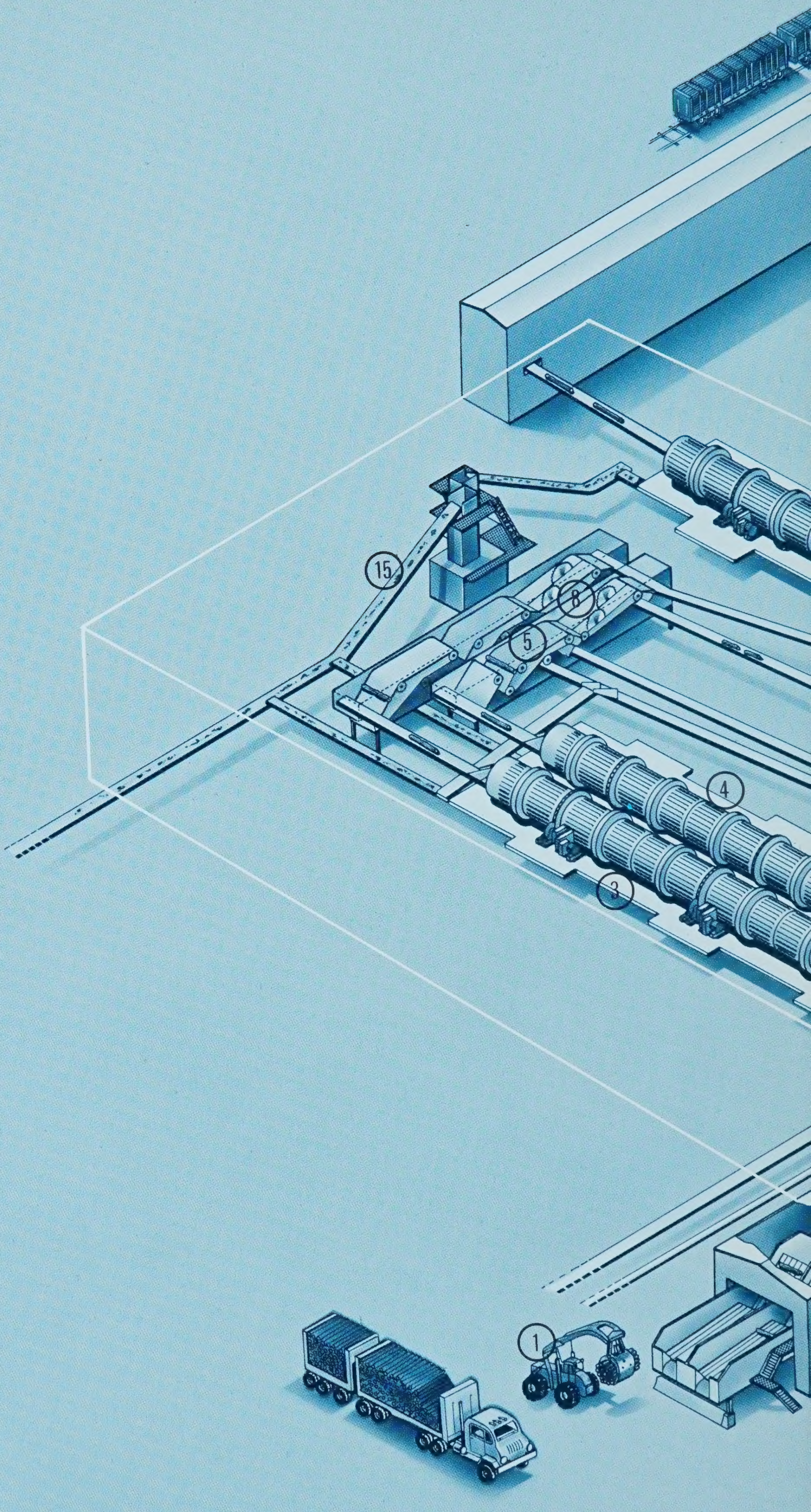
10 Secondary debarking, as noted above under (5).

11 Receiving and de-icing system for kraft pulp mill production.

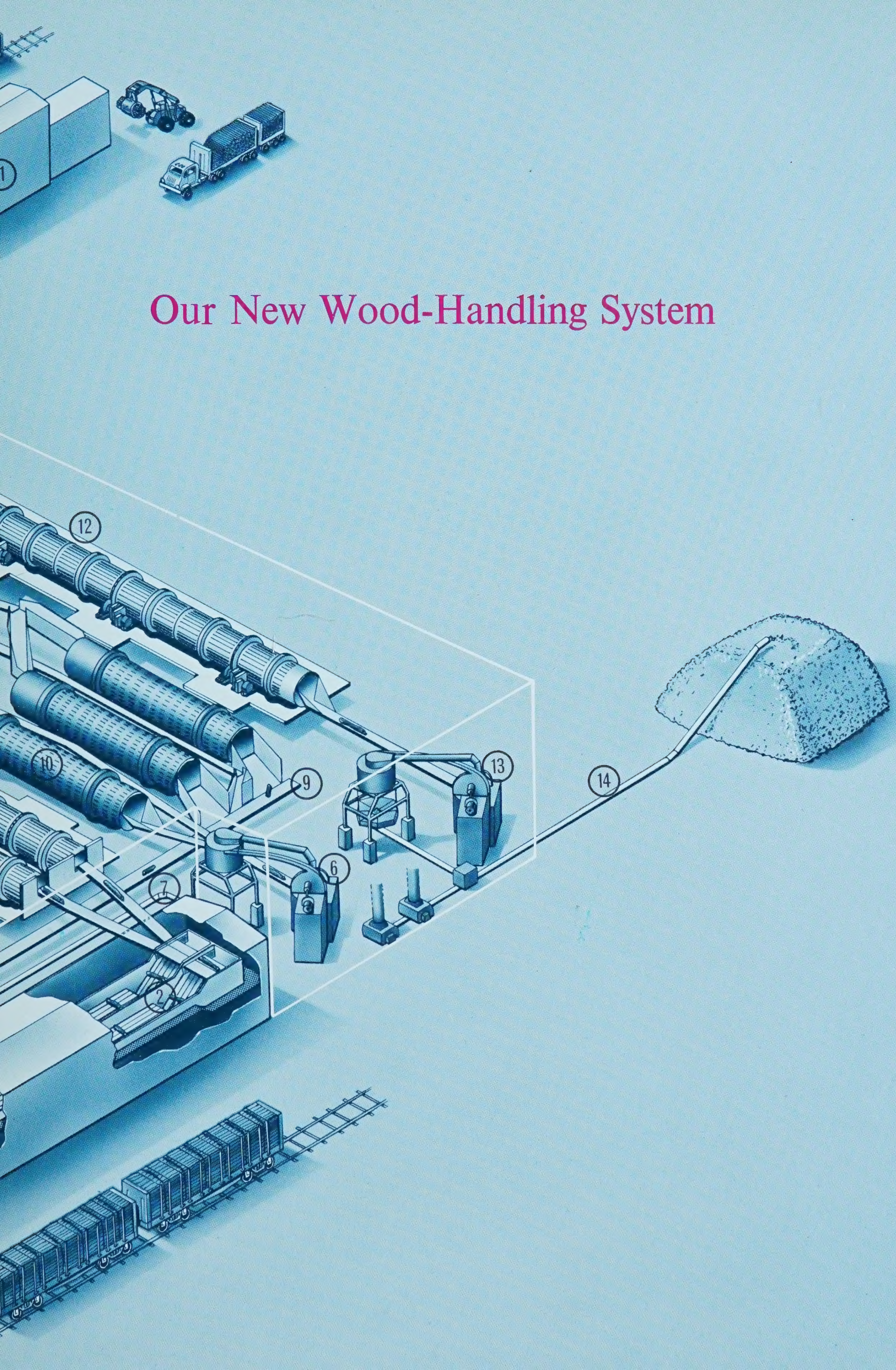
12 The debarker for the kraft mill wood measures 200 feet in length and ten feet in diameter.

13 Wood for the kraft pulp mill is chipped and screened, then conveyed by air (14) to a chip storage pile.

15 Bark is conveyed to our boiler house to be used as fuel.



Our New Wood-Handling System



This map shows our company's 15,242 square miles of forest areas, which we manage under Ontario Government licence and from which we obtain most of our wood supply. To open and harvest these areas we have built the camps shown on the map as well as 1,130 miles of all-weather gravel roads which join public highways leading directly to our mill in Thunder Bay. Wood is delivered to the mill by two rail systems and trailer truck.